KBLCOM INCORPORATED
and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEET
BALANCES AT 6/30/93
(Thousands of Dollars)
(Unaudited)

ASSETS	JUNE 30, 1993
Current Assets	$38,649
Property, Plant and Equipment	343,329
Accumulated Depreciation	(133,938)
Net Property, Plant and Equipment	$209,391
Total Investments	113,882
Oher Assets:	
Franchise	555,541
Goodwill	447,612
Other Assets	48,317
Total Other Assets	$1,051,470
Total Assets	$1,413,392
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current Liabilities	$150,890
Long-Term Liabilities	562,484
Deferred Income Taxes Payable	297,712
Unamortized ITC	3,792
Total Liabilities	$1,014,877
Preferred Stock	250,000
Stockholder's Equity:	
Common Stock	1
Additional Paid-in Capital	718,042
Retained Earnings	(569,528)
Total Stockholder's Equity	$148,515
Total Liabilities and Stockholder's Equity	$1,413,392

KBLCOM INCORPORATED
CONDENSED STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1993	1992 (Restated)	1993	1992 (Restated)	1993	1992 (Restated)
Revenues:						
Basic services	$42,336	$39,509	$83,722	$78,429	$163,394	$153,374
Pay (Premium) services	9,683	9,871	19,434	19,791	38,897	40,639
Pay per view	3,239	2,968	5,992	5,715	10,672	10,094
Advertising	4,376	4,092	7,753	7,015	16,149	13,689
Other	3,396	3,387	6,860	6,212	14,247	11,855
Total	63,030	59,827	123,761	117,162	243,359	229,651
Cost of Services and System Operating Expenses	37,376	35,926	74,674	70,892	145,525	140,609
Gross Margin	25,654	23,901	49,087	46,270	97,834	89,042
Depreciation and amortization	19,438	18,228	38,697	36,516	77,803	71,676
Interest expense	11,983	17,375	27,626	36,780	60,762	79,681
Other expense	821	1,287	986	2,352	2,434	4,348
Equity in income of cable television partnerships	(7,987)	(5,334)	(15,009)	(9,942)	(29,938)	(16,947)
Income taxes	1,526	(1,963)	973	(5,411)	(1,817)	(4,303)
Net Loss Before Preferred Dividends to Parent	($127)	($5,692)	($4,186)	($14,025)	($11,410)	($45,413)

Reference is made to the Notes to the Consolidated Financial Statements contained in the Annual Report of Houston Industries Incorporated.

The information furnished is given in response to your request for information concerning the Company and not in connection with any sale or offer for sale of, or solicitation of an offer to buy, any securities.

Exhibit C

HISTORY AND SELECTED FINANCIAL DATA OF RIFKIN ACQUISITION PARTNERS, L.P.

1. Formation

This "Rifkin" company was formed in May 1989 when it acquired the operations of two smaller cable companies and combined them. The new company was financed by equity contributions of $42.5 million from investors and borrowing of approximately $131 million. The largest investor in the company was responsible for negotiation of the purchase terms and approval of the financing and was a third party investor, not previously affiliated with any Rifkin interest and not affiliated in any way with the sellers. The primary seller was a Providence, Rhode Island based investor with no continuing interest in the new company. The company now operates cable television systems in four states serving over 112,000 households and employing some 166 people.

The acquisition was primarily financed by debt. Debt financing was provided by a bank group led by Chase and an insurance company group led by John Hancock. The transaction was in every sense a "fair market" purchase under scrutiny of sellers, buyers, investment bankers (Paine Webber and Morgan Stanley were parties to the transaction), and lenders to the new entity. Affiliates of Monroe M. Rifkin became the general partner of the new company and the manager of the company's day-to-day operations, and Mr. Rifkin and his family and his key employees became minority investors in the company.

2. System Development

From 1989 to June 1993 the company built over 400 miles of new cable plant adding over 20,000 new homes to its service area, homes which previously had no cable service. The company upgraded another 500 miles of cable plant, increasing services offered from 30 channels (on average) to 60 channels in over 50,000 homes and to 40 channels in another 50,000 homes.[1/] The company spent a total of $30 milion from May 1989 to June 1993, and gained 26,000 new subscribers. Since acquisition, the company has generated earnings before interest, taxes, depreciation and amortization of $65 million. Of this amount, the $30 million reinvested constitutes 46% of the total earnings. The communities served by Rifkin continue to be impressed by the quality and quantity of services offered, albeit at higher rates which have been required by increased costs including programming and other.

3. Financial Performance

The company's revenue increased from $16 million in seven and one-half months in 1989 to $20 million for six months ending June 30, 1993, and its cash flow after operating expenses (about 50% of revenue) increased from $12 million in calendar 1989 to $22 million in 1993 (projected, prior to rate regulation). (See Schedule attached).

1/ In Georgia, for example, the largest system, the plant has been upgraded to 60 channel capacity, utilizing fiber optic trunk runs. The plant has been substantially extended to pass new homes, additional channel offerings have been made, rates to subscribers have been increased but most importantly, penetration has increased substantially.

Since it began operations in 1989 (through 6/30/93) the company has collected $135 million in revenue. It has paid out $70 million in wages, taxes, program costs, rent, copyright fees and other operating costs, $30 million for capital improvements and $54 million of interest expense, a total of $154 million in cash paid out. Nothing has been paid to its owners. Since cash outlays have exceeded revenues, the company has borrowed another $19 million from its creditors to meet its expenses. The company has never recorded a profit and has never made any distributions to its partners, the investor group who paid $42.5 million to buy the cable systems comprising the company.

4. Effect of Restrictive Rate Rules

In 1994 the company had anticipated generation of sufficient cash flow to begin to repay a portion of its indebtedness, which will not occur because of rate regulation. There is now no foreseeable point in time when a cash distribution to its investors could be made, nor would the company's creditors permit such a distribution. The company expected to continue its capital expansion and improvement in services, which will be hampered because of cost of service regulation.

The acquisitions and financing creating the company were finalized in 1989 pursuant to an existing set of rules and conditions. Very substantial commitments were made, including the equity investors' input of $42.5 million cash. The company and its systems have been run in a responsible fashion since that

date. All cash generated by the business, other than that used to pay interest on the acquisition costs, has been plowed back into the business, with no distributions to investors. Services have expanded and been improved and rates charged have been increased periodically to reflect the additional offerings and increased costs. Changing the rules mid-stream will create serious financial difficulties.

A rollback to the benchmark rates at September 1 would throw the company into immediate default on its various loan agreements (the lenders are essentially all third party independent institutions) which would result in an acceleration of the total principal due, and would leave the company with few alternatives. It might seek to refinance the existing indebtedness but, with the rollback in rates the resultant cash flow would not nearly support the current indebtedness nor is refinancing feasible in the chaos that reregulation has brought to the financial markets. Another alternative might be a restructuring of terms and conditions with the existing lenders but this is hardly feasible since the approximately 17-1/2% decrease in cash flow resulting from rate rollbacks of approximately $3.5 million (required by the FCC rules) and the rate freeze (continuing for an undetermined period into 1994 during which expenses will be rising) will put the company in the position of not being able to pay its current interest charges. Compounding this is the fact that there are several classes of creditors holding different levels of security and those with senior positions would not be

willing to accept a compromise which might benefit lenders with weaker security positions. The only feasible alternative would be for the company to seek the protection of the courts. It is difficult to see how the public interest would be served in such an event. The recently promulgated FCC benchmark rates, to which the company is required to conform on September 1, could clearly put the company out of business.

A rollback in retail charges for an optional service is not a reasonable function of public policy. The company sells a very good service at an attractive price, resulting in growth over the last three and one-half years. Those 26,000 households who have become new customers made a simple choice in a free marketplace. "Free" broadcast TV is not as desirable as cable TV for $22 per month. But the success of the business plan required additional years of growth and recapture of the early losses. Monopolists would not have endured these losses demonstrating how competitive the cable television market really is and how acquisition "premiums" do not reflect the expectation of monopoly profits.

Rifkin Acquisition Partners, L.P.
Selected Data

	5-13-89	12-31-89	12-31-90	12-31-90	12-31-92	6-30-93
Homes Passed	135,101	139,648	146,364	149,421	155,013	157,534
Subscribers	85,277	88,194	96,349	102,532	108,991	111,569
Saturation	63%	63%	66%	69%	70%	71%

Period Ending
(000 Excluded)

	1989 7½ Mos.	1990 Year	1991 Year	1992 Year	1993 2/ 6 Mos
Gross Revenues	16,641	28,993	32,879	36,935	20,261
Operating Cash Flow	7,688	13,940	15,843	17,910	9,665
OCF %	46.2	48.1	48.2	48.5	47.7
Interest Expense	10,924	17,871	18,757	19,222	9,396
(Net Loss)	(14,045)	(21,212)	(17,950)	(16,923)	(7,100)

2/ Projected prior to rate regulation. Actual not available.

Exhibit D

Deloitte & Touche

125 Summer Street
Boston, Massachusetts 02110-1617

Telephone: (617) 261-8000
Facsimile: (617) 261-8111

June 30, 1994

Continental Cablevision, Inc.
The Pilot House
Lewis Wharf
Boston, Ma. 02110

Dear Sir/Madame:

INTRODUCTION

This report is in response to your request, dated June 23, 1994, regarding the background and purpose of Statement of Financial Accounting Standards No. 51, "Financial Reporting by Cable Television Companies" (SFAS 51). Based upon the discussion below, this report is intended solely for the use of management of Continental Cablevision, Inc. (the Company) and of regulatory authorities with whom the Company or any of its subsidiaries may file Federal Communications Commission Form 1220 (Form 1220) for purposes of determining the maximum permitted rate for the Company's regulated cable television services using a cost-of-service approach.

BACKGROUND

SFAS 51 was issued in 1981 for the purpose of establishing certain generally accepted accounting principles for financial reporting by cable television companies. SFAS 51 extracts and codifies without significant change the specialized principles and practices from AICPA Statement of Position 79-2, "Accounting by Cable Television Companies." It establishes financial accounting and reporting standards for certain costs, expenses, and revenues related to cable television systems.

An exposure draft of this statement was issued on June 12, 1981 for public comment. The Financial Accounting Standards Board received 23 comment letters in response to the exposure draft. None of these letters were filed by entities with any regulatory authority or oversight over cable television companies.

DISCUSSION

Based upon our discussions with Company's management, it is our understanding that one of the issues in cost-of-service rate making for regulated cable television systems is determining a reasonable return on the investment made in the cable television system and, therefore, a determination of what amounts should be viewed as having been invested in cable television systems. As discussed below, we believe that SFAS 51 was not promulgated for the purpose of answering these questions.

Paragraphs 4 through 9 of SFAS 51 discuss a "prematurity period" and the related accounting for certain costs during that period. Appendix A of SFAS 51 defines the beginning of the prematurity period as the period beginning with the first earned subscriber revenue and provides guidelines for determining the length of the prematurity period. Paragraph 4 of SFAS 51 states that there is a presumption that the prematurity period usually will not exceed two years.

During the prematurity period, paragraph 6 of SFAS 51 specifies those costs which should be capitalized and those costs which should be expensed as period costs. SFAS 51 does not address the treatment of costs incurred prior to the prematurity period.

SFAS 51 does not address the question of whether investors in cable systems will receive or have received returns on the investments they make in such systems which could be deemed appropriate for regulatory rate setting purposes. SFAS 51 does not address the question of how to measure, for regulatory rate setting purposes, how much has been invested in a cable television system or how the reasonableness of the return on such amounts invested should be assessed.

CONCLUDING COMMENTS

As discussed above, SFAS 51 provides guidance for management to account for and report on cable television operations under generally accepted accounting principles. We believe it was not adopted for purposes of determining costs which should be either included or excluded in the cost-of-service approach to rate making filed with regulatory authorities on Form 1220, nor was it adopted for purposes of determining the classification of costs that might be included in such filings.

The ultimate responsibility for costs included on Form 1220, and the classification for such costs for regulatory purposes rests with you as the preparers of the Forms, based upon rules established by the Federal Communications Commission or other appropriate regulatory and/or legal authorities.

Your truly,

Deloitte & Touche

Exhibit E

DUPLICATE

Before the

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992	)	MM Docket No. 93-215
Rate Regulation	)	

COMMENTS OF CONTINENTAL CABLEVISION, INC.

Nancy Hawthorne
Senior Vice President, Treasurer
and Chief Financial Officer
Richard A. Hoffstein
Senior Vice President and
Controller
P. Eric Krauss
Assistant Treasurer
CONTINENTAL CABLEVISION, INC.

W. Page Montgomery
Senior Vice President
David Koddy, Ph.D
Vice President
ECONOMICS AND TECHNOLOGY, INC.

Economic & Financial Advisors

Robert J. Sachs
Margaret A. Sofio
CONTINENTAL CABLEVISION, INC.
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Paul Glist
John D. Seiver
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Maria Browne
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Attorneys for
Continental Cablevision, Inc.

August 25, 1993

While reviewing Courts generally have been deferential to agencies' ratemaking metholodogies,[14/] there recently has been some willingness of courts reviewing agency rate determinations to overturn those determinations where an unreasonable result ensues from the agency's rate-setting methodology.[15/] In order to avoid the unnecessary collision between the developing industry and the 1992 Cable Act, the Commission must allow for transition in ratesetting to reflect expenses incurred in prior years and assets bought and paid for prior to regulation.

III. THE UNDERLYING FINANCIAL MODEL FOR CABLE TELEVISION

Continental submits that fashioning appropriate cost of service rules cannot begin with reflexive resort to telephone models, but must begin with an understanding of financial decisionmaking in cable television.

14/ See John N. Drobak, From Turnpike to Nuclear Power: The Constitutional Limits on Utility Rate Regulation, 65 B.U. L.Rev. 65 (1985); Richard J. Pierce, Jr., Public Utility Regulatory Takings: Should the Judiciary Attempt to Police the Political Institutions?, 77 Geo. L.J. 2031 (1989) ("Pierce").

15/ See, e.g., Jersey Central Power & Light Co. v. F.E.R.C., 810 F.2d 1168 (D.C. Cir. 1987) (court invalidation of FERC order excluding from electric utility's rate base certain costs associated with cancelled nuclear power project). See Pierce, 77 Geo. L. Rev. at 2033-39 (United States Supreme Court and other federal courts have "already begun the process of imposing rigorous constraints on ratemaking").

A. Sources and Uses of Funds

Financial decisionmaking in the cable television industry, like most industries, is generally made on the basis of a "sources and uses of funds" paradigm. Under this paradigm, the subject venture's cash flows are analyzed and projected in a detailed manner, particularly as to the various components of operating revenues (basic subscribers, pay tv units, rates, number of additional outlets, etc.) and operating expenses (operating, general administrative and programming, etc.).[16/] From these, a projected operating income figure is derived, then plugged into a formatted sources and uses analysis where

Sources = Operating Income
Terminal Value

and

Uses = Capital expenditures, expenses, and Taxes

The terminal value is equal to the present value of the future streams of income beyond the horizon of the analysis. For example, if the analysis runs from year one through year seven, a terminal value in year seven would be a function of the cash flows expected from years eight through infinity. Alternatively,

---

16/ This assumes that the analysis will be performed without regard to the debt-equity mix. Otherwise, sources would include financing (i.e., proceeds of debt) and uses would include debt service (i.e., interest and amortization).

this terminal value can be viewed as what the system could be sold for in the final year of the analysis, or the opportunity cost of not selling it. Not coincidentally, this approach should yield the same value as does the discounted cash flow approach, since a buyer would theoretically be willing to pay the present value of the expected future cash flows for the system.

The ultimate valuation then becomes a simple present value exercise of discounting the cash flows in years one through seven (or whatever the final year of the analysis may be). The valuation decision flows from all of the detailed assumptions made as to the operating possibilities of the system which together create an operating cash flow stream. The other major determinant of valuation is the choice of discount rate at which to discount the operating cash flows. In other words, valuation is very sensitive to cost of funds.

The "sources and uses of funds" format is also used for financing decisions. Once the operating sources and uses have been determined, one can test assumptions as to how much debt the operating cash flows can carry (pay interest on) and amortize (pay principal on). It should be noted here that financial institutions are not willing to lend against the terminal value of a system, so for this purpose terminal value is not included as a source of funds.

The debt number has been optimized when the projections show the debt has been fully paid out when due, interest has been paid annually at the appropriate rate and net ending cash every year is at least zero (or, more realistically, some minimum working capital level). If the projections show that cash is not sufficient to carry and amortize debt, one proceeds with an interactive process by reducing the assumed debt level and testing it again; the process continues until it meets the test of net ending cash in every year being greater than zero. Once the debt number has been arrived at, it can be subtracted from the purchase price and the balance is the required equity needed for the venture.

The valuation of systems built and held by original owners reflects the same analysis as an acquired system. To illustrate this, Continental presents a case study of its Brockton, Massachusetts system, followed by a case study of its acquisition of four systems in Northern California and Nevada.

B. The Brockton Build And Hold Model

Exhibit A presents the financial history of the Brockton system. It is somewhat unique in that its accounting records are "apples-to-apples" from inception through the present; the company began building the system in 1982 and has held it as a separate corporate and financial entity, Continental Cablevision of Brockton, Inc. It therefore provides a dynamic

Continental Cablevision of Brockton
Cumulative Invested Capital
1983 - 1992

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Basic Subscribers	12,917	16,490	17,416	16,993	18,649	19,811	21,274	21,026	20,859	20,628
Gross Revenue	1,915,126	4,995,778	5,756,186	5,859,520	6,989,757	7,841,024	8,760,319	8,968,467	9,125,605	9,398,176
Operating Expenses	2,313,026	3,688,855	3,733,830	4,067,990	4,408,536	4,677,300	5,251,026	5,248,336	5,341,087	5,468,871
Operating Income	(397,900)	1,306,923	2,022,356	1,791,530	2,581,221	3,163,724	3,509,293	3,720,131	3,784,518	3,929,305
Interest Expense	0	831,810	1,192,967	1,084,914	1,046,090	968,439	905,000	680,000	383,403	140,059
Other	0	0	0	0	0	0	0	0	0	(97,231)
Depreciation	815,028	1,527,955	1,473,682	1,382,773	1,391,157	1,400,231	1,528,026	1,463,387	1,380,199	1,348,210
Net Income (Loss)	(1,212,928)	(1,052,842)	(644,293)	(676,157)	143,974	795,054	1,076,267	1,576,744	2,020,916	2,538,267
Gross LT Tangible Assets	13,782,648	16,312,136	17,405,407	16,952,332	17,232,577	17,725,845	18,553,312	18,944,237	19,460,951	20,102,783
Accumulated Depreciation	(691,028)	(2,190,384)	(3,661,518)	(4,402,017)	(5,734,409)	(7,005,871)	(8,404,879)	(9,692,049)	(10,638,591)	(11,711,330)
Net LT Tangible Assets	13,091,620	14,121,752	13,743,889	12,550,315	11,498,168	10,719,974	10,148,433	9,252,188	8,822,360	8,391,453
Restatements for Regulatory Accounting										
Invested Capital:										
LT Tangible Assets - Net	13,091,620	14,121,752	13,743,889	12,550,315	11,498,168	10,719,974	10,148,433	9,252,188	8,822,360	8,391,453
Accumulated Return Deficiency (1)	0	3,438,503	6,644,779	9,562,178	12,912,545	15,872,302	18,629,496	21,540,477	24,518,487	27,782,112
Cumulative Invested Capital	13,091,620	17,560,255	20,388,668	22,112,493	24,410,713	26,592,276	28,777,929	30,792,665	33,340,847	36,173,565
(1) Allowable Return (17% of Invested Capital)	2,225,575	2,985,243	3,466,074	3,759,124	4,149,821	4,520,687	4,892,248	5,234,753	5,667,944	6,149,506
Add: Net Loss (before Interest)	1,212,928	221,032	0	0	0	0	0	0	0	0
Less: Net Income (before Interest)	0	0	(548,674)	(406,757)	(1,190,064)	(1,763,493)	(1,981,267)	(2,256,744)	(2,404,319)	(2,678,326)
Deficiency	3,438,503	3,206,275	2,917,400	3,350,367	2,959,757	2,757,194	2,910,981	2,978,009	3,263,625	3,471,180

		Cumulative Invested Capital
Pre-Tax WACC	14%	25,521,033
	15%	28,806,689
	16%	32,351,982
	17%	36,173,565
	18%	40,288,976
	19%	44,716,680
	20%	49,476,108
	21%	54,587,696

view of a representative mid-sized cable system. While each system has its own story, Brockton is sufficiently representative to demonstrate the broad financial characteristics of a cable television construction project with normal subsequent system development and operation.

As can be seen from the preceding "Cumulative Invested Capital" chart, the cable operator invests in a new cable system in three primary ways: (1) physical assets; (2) start-up losses; (3) deferred returns.

1. Physical assets. Funds are expended for the actual cost of construction of the system and its related facilities. In Brockton, Continental spent over $14 million on this category of asset, which for book purposes had been depreciated to $8.4 million by 1992.

2. Start-up losses. While the system is being marketed and earning acceptance in the marketplace, it incurs losses. Cable systems have characteristic growth cycles which must be accounted for in establishing rate base. Cable systems are exceptionally capital intensive. They are built out to pass most, if not all, homes in a community, and are typically engineered to pass sufficient signal to two televisions in each home. Yet adding subscibers to a new system is often a painstakingly slow process. To gain subscribers, a firm must

conduct major marketing campaigns to attract and retain a loyal base of subscribers. When new systems are first marketed typically between 35% to 45% of the homes passed by cable will subscribe. Penetration will climb by 4% to 5% the second year of operation and then flatten to a slower 2% to 3% annual growth until maturation. During the startup years, revenues are insufficient to cover operating expenses much less to provide any return on capital. The value of a viable subscriber base built in this manner contributes substantially to the value of the firm as a going concern. In Brockton, Continental incurred net losses totalling $3.6 million ($1.4 million before interest expense) over the first four years of the system's operation.

In financing a project such as Brockton, the operator must ensure that there is sufficient cash to not only pay for construction, but to fund the early operating losses -- which are the equivalent of actual cash outlays. The rational cable operator not only recognizes and provides for these losses in real cash terms, but avoids incurring them (i.e., doesn't build the system) unless it reasonably foresees earning a sufficient return on the entire invested amount to satisfy its own investors.

3. Deferred returns. During the period of early losses, the operator earns no current return on the capital (both hard assets and operating losses) invested in the system. In

Brockton, Continental's deferred returns had accumulated to $26.4 million by 1992 -- over 150% of the first two categories combined. (The model assumes a pre-tax 17% rate of return to approximate the 11.25% after tax return which telephone companies are currently permitted.)

However, the operator's investors expect a return on the capital they have invested in the company, and are not willing to declare a moratorium on that expected return while the system is under development. Equity investors measure their return over a multi-year period, and in return for some additional risk premium, are willing to wait for their returns until the system turns cash-positive -- providing that, on average and adjusted for the time value of money, they have earned a fair return on their invested funds for the entire time period. When the system is losing money, the investors' return expectations are "accumulating."

In order to deliver delayed-but-adequate returns to the investors, the cable operator must earn a fair return on all capital invested each year, not just on that invested in hard assets. If returns are subpar, the operator will not be able to attract further investment capital or, in the worst case, will not be able to service debt and the business will fail.

When Continental's investment in the Brockton system is measured taking all three of the above categories into account,

its actual investment in the system ($36 million) is revealed to be more than four times than that carried on its books as hard assets (depreciated plant of $8.4 million), and almost triple that originally invested in hard assets ($14.1 million).

Were Continental to consider selling the system at any point, it would be rational to demand at least what was invested in the system to that point, in this case $36 million. Application of a market-approximating 10X multiple to Brockton's 1992 operating income would yield an asking price for this system of $39.3 million; it is presumably no accident that this figure roughly corresponds to the total prior investment, including foregone return, in the system to that point.

Yet, were the buyer to pay such a price, GAAP would require the buyer to book a large part of the purchase price (typically up to 40%) as "intangibles," a term which connotes "soft" costs. This is misleading because, as demonstrated, the entire purchase price would have done no more than reimburse the seller for his actual "hard" investment in physical plant, start-up losses, and deferred returns. Accordingly, the acquisition "premiums" are indeed a misnomer, as the excess over book or tangibles really represents capital actually invested in the enterprise.

C. The Fresno Acquisition Model

In addition to compensating sellers for prior losses, part of the purchase price for many systems acquired during the 1980's reflected unrealized economies and future growth potential.

In order to give the Commission a first-hand look at the factors which entered into cable acquisitions during the 1980's, Continental includes with these comments (Exhibit B) the actual internal venture analysis that was prepared by its senior management and relied upon in connection with its 1986 purchase of four Northern California and Nevada cable systems from McClatchy Newspapers. The largest of these systems was the one which serves Fresno, California. The venture analysis was prepared before Continental bid on these properties and presents best case ("optimistic") and worst case ("sandbag") scenarios that were used in determining the price to bid for these systems. Continental eventually paid $127 million or $1,420/subscriber (then a record price) for the McClatchy properties which served some 90,000 subscribers in October, 1986. Since acquiring the systems, Continental has increased subscriber penetration from 41% to 58%, adding nearly 74,000 subscribers as a result of rebuild, marketing, programming and customer service improvements.

The $127 million purchase price was allocated as $82 million in tangible assets and $45 million in intangibles. The acquisition, however, fit well with Continental's existing Northern California systems, nearly tripling the size of that management region and giving it a critical mass that justified further investments in system enhancements.

The venture analysis provides a candid inside look at the considerations that went into the decision to bid on the McClatchy systems. The thrust of the analysis is that the properties, if developed properly, would ultimately be a good investment. Development required increasing the number of basic and pay television subscribers and building unserved areas. According to the venture analysis written by Barbara Sitkin who was the then Vice President and General Manager for Continental's Northern California region: "One scenario represents that which is most probable, assuming we cure the political and operational messes, invest the capital necessary to create decent product and spend time developing the markets."

The major assumption in the financial projections included $12 million in capital additions, starting at the time of purchase, to be used to increase channel capacity, construct 8,000 new passings, install a computerized billing system, new phone system and purchase new vehicles. Marketing was another major focus with a targeted lift in basic subscribers in two of